

BANK RECONCILIATION STATEMENT

Prepared By:
OLADIPO TUNDE PETER HND, BSC, ACA

Introduction

Every entrepreneur should have knowledge of cash book and bank statement as from these books, he may check how much balance is available to him for meeting his expenses and liabilities and what are the details of receipts and payments of a particular period.

With the details of payments it can be checked that whether the payments are of reasonable amount or not. If the expenses are unreasonably high he may take steps to control them. An entrepreneur who regularly checks his cash and bank balances would never face problems like dishonor of cheques or cash crisis etc.

Definition

- What Does *Bank Reconciliation Statement* Mean?

A form that allows individuals to compare their personal bank account records to the bank's records of the individual's account balance in order to uncover any possible discrepancies.

Reconciliation between the cash book and the bank statement final balance simply means **an explanation of the differences**. This explanation takes the form of a written calculation.

Differences between the cash book and the bank statement can arise from:

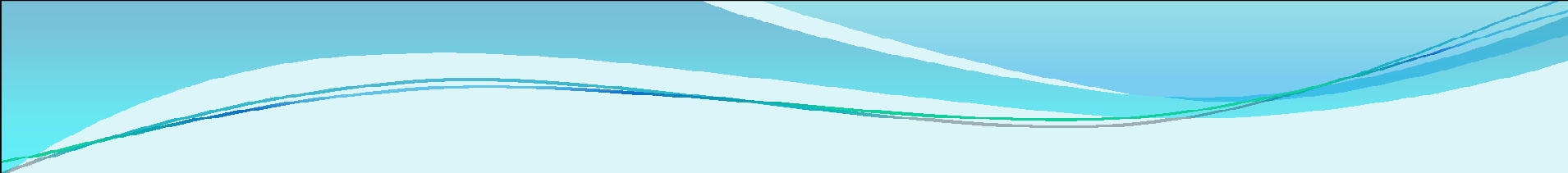
- **Timing** of the recording of the transactions
- **Errors** made by the business, or by the bank

We will explain each of these in turn:

Timing Differences -Item Recorded in the Cash Book

When a business compares the balance according to its cash book with the balance as shown by the bank statement there is often a difference. This difference can be caused by the **timing** of payments.

- A cashier may send cheques out to suppliers, some of whom may pay in the cheque at the bank immediately while others may keep the cheque for several days before paying it in. When this happens the cashier will have recorded all the payments in the cash book. However, the bank records will only show the cheques that have actually been paid in by the suppliers and deducted from the business bank account. These cheques are known as **unpresented cheques**.



- With another type of timing difference – known as **OUTSTANDING LODGEMENT**– the firm's cashier records a receipt in the cash book as he or she prepares the bank paying-in slip. However, the receipt may not be recorded by the bank on the bank statement for a day or so, particularly if it is paid in late in the day (when the bank will put it into the next day's work), or if it is paid in at a bank branch other than the one at which the account is maintained.

TIMING DIFFERENCES – Items Not Recorded In The Cash Book

Another timing difference may also occur when the bank has received a direct payment from a customer of the business. In this instance the bank will have recorded the receipt in the business's account at the bank but the business will be unaware of the payment and will not, therefore, have recorded the receipt in the cash book. This type of payment includes:

For example :

- standing order and BACS (Bankers' Automated Clearing Services),

ie incoming payments received on the account, eg payments from debtors (customers) when the payment has not been advised to the business

- bank giro credit amounts received by the bank, eg payments from debtors (customers) when the payment has not been advised.

- interest and refunds credited by the bank

Payments Out

Another reason why the balance of the cash book and the balance of the bank statement may not agree is because the bank may have deducted items from the customer's account, but the customer may not be aware of the deduction until the bank statement arrives. Examples of these deductions include:

- standing order and direct debit payments which the customer did not know about
- bank charges for running the account
- interest charged for overdrawn balances
- unpaid cheques deducted by the bank – ie stopped and 'bounced' cheques .

Differences Caused By Errors

Sometimes the difference between the two balances may be accounted for by an error on the part of the bank or an error in the cash book of the business. It is for this reason that a bank reconciliation is carried out frequently so that errors may be identified and rectified as soon as possible. It is good business practice to prepare a bank reconciliation statement each time a bank statement is received. The reconciliation statement should be prepared as quickly as possible so that any queries – either with the bank statement or in the firm's cash book – can be resolved. Many firms will specify to their accounting staff the timescales for preparing bank reconciliation statements. For example, if the bank statement is received weekly, then the reconciliation statement should be prepared within five working days.

PREPARING THE BANK RECONCILIATION STATEMENT

When a bank statement has been received, reconciliation of the two balances is carried out in the following way:

step 1 The cashier will tick off the items that appear in both the cash book and the bank statement.

step 2 The unticked items on the bank statement are entered into the bank columns of the cash book to bring it up to date.

step 3 The bank columns of the cash book are now balanced to find the revised figure.

step 4 The remaining unticked items from the cash book will be the timing differences.

step 5 The timing differences are used to prepare the bank reconciliation statement.

NEED AND IMPORTANCE OF BANK RECONCILIATION STATEMENT

The need and importance of the bank reconciliation statement may be given as follows:

1. The reconciliation process helps in bringing out the errors committed either in cash Book or bank statement.
2. Bank reconciliation statement may also show any undue delay in the clearance of cheques.
3. Sometimes the cashier may have the tendency of cheating like he may made entries in the Cash Book only but never deposit the cash into bank. These types of frauds by the entrepreneur's staff or bank staff may be detected only through bank reconciliation statement. So this way bank reconciliation statement acts as a control technique too.



THE END.

THANK YOU

AND

GOD BLESS.